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OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U. S.)  
APO 742

Subject: Memo to Clayton re Standards for Deconcentration of German Industry

| NO. | TO  | FROM        | DATE               |
|-----|---|-------------|--------------------|
| 1.  | Mr. J.S. Martin,<br>Chief,<br>Decart.<br>Branch | Dir.,<br>ED | 23<br>Sept<br>1946 |

1. Attached for your information is memorandum which was given me the day I left Washington as a draft prepared in the State Department for Mr. Clayton, which he had not seen as yet and which was not in any sense more than a draft.

2. Mr. Clayton had expressed disagreement with the mandatory test of ten thousand employees on the basis that no test of size alone necessarily represented a harmful concentration of economic power. The resulting discussion among State Department officials indicated considerable differences in points of view toward the proposed decartelization law. I had merely reported the status of the quadripartite negotiations and purposely took little or no part in the discussion itself.

3. I do not know whether any new instructions or policy decisions will result, but I am giving you this merely for your information.

Rm 2043, Econ Bldg  
Tel 42683

/s/ W. H. Draper, Jr.

Incl: Cy Memo dtd 11 Sept 46 to  
Clayton on "Standards for  
Deconcentration of German  
Industry"

WILLIAM H. DRAPER, JR.  
Brigadier General, GSC  
Director

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September 11, 1946

U-E - Mr. Clayton

ITP - Mr. Wilcox

## Standards for Deconcentration of German Industry

As you know, United States representatives in Berlin are reported as having reached a tentative agreement with French, Soviet, and British representatives that the selection of German enterprises for deconcentration would depend on a single standard, namely whether they had 10,000 or more employees. The tentative agreement provides also that any such enterprise may be exempted by a vote of three out of four nations in the quadripartite authority and that firms of smaller size can be added by unanimous vote of the four participants.

Although we view the adoption of any single mandatory standard with some misgivings, we have come to the conclusion that under all the circumstances this approach, while far from ideal, may be the best of the various alternatives. Our conclusion is based upon certain assumptions and certain qualifications which we have set forth below:

1. United States representatives in Berlin have insisted that, whatever the criteria of selection for deconcentration may be, they should be mandatory criteria. This position has been adopted because of the conviction that the British are lukewarm about the objectives of this program and that therefore little would be accomplished if the selection of firms for deconcentration were left to the discretionary decision of the four administering authorities on the basis of an unanimous vote.
2. In our previous discussions with the United States members of the Decartelization Branch of OMCUS, they have shown a keen awareness of the arbitrary character of a single mandatory standard and have urged the conjunctive use of standards based upon asset value and percentage of industry controlled by the firm. It may be presumed therefore that the dropping of the latter two standards was necessitated by the desire to reach some agreement with the British.
3. The deficiencies of the 10,000 standard can be considerably mitigated if it is set up merely as the basis for selecting firms for initial deconcentration. The program of deconcentration should, if it is to be effective, be carried out quickly. Once the program is completed, the future policing of German industry for excessive concentration could be accomplished on the basis of much more flexible and refined standards than the blunt but expedient criterion of 10,000 workers.
4. It is presumed from past discussions that, even in the initial selection, exceptions would be made for firms exceeding the agreed standard where it can be demonstrated that technological efficiency would be seriously impaired by breaking up the firms into smaller corporate units.
5. The views expressed in the two preceding paragraphs are being transmitted to United States representatives in Berlin together with other comments and questions on the present negotiations.

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